

EXCISE TAX RATES ON CIGARETTES

(Prepared For the Hearing on September 10, 1985, Before the Senate Finance Subcommittee on Taxation and Debt Management)

Present Law and Background

An excise tax is imposed on cigarettes manufactured in or imported into the United States (Code sec. 5701(b)). The tax is determined when the cigarettes are removed from the factory or released from customs custody. The present rate of tax on small cigarettes is \$8 per thousand (i.e., 16 cents per pack of 20 cigarettes). The tax rate on large cigarettes generally is \$16.80 per thousand; proportionately higher rates apply to large cigarettes that exceed 6.5 inches in length. Small cigarettes are cigarettes weighing no more than 3 pounds per thousand; large cigarettes are cigarettes weighing more than 3 pounds per thousand. Nearly all taxable cigarettes are small cigarettes.

The current cigarette tax rates were enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (sec. 283 of P.L. 97-248), for the period January 1, 1983, through September 30, 1985. On October 1, 1985, the present cigarette excise tax rates are scheduled to decrease to \$4 per thousand (i.e., 8 cents per pack of 20 cigarettes) for small cigarettes and to \$8.40 per thousand for large cigarettes, that is, to the rates in effect before 1983.

Revenues from the excise tax on cigarettes are deposited in the general fund of the Treasury.

Administration Proposal

The Administration's fiscal year 1986 budget proposal assumes that the scheduled reduction in the cigarette tax rates under present law will take place.

Other Proposals

The following Senate bills regarding cigarette tax rates have been introduced thus far during the 99th Congress.

S. 820 (Senator Heinz)

This bill would permanently extend the 16-cents per pack cigarette tax rate.¹ One-half of revenues from the tax imposed on cigarettes after September 30, 1985 (i.e., 8 cents per pack) would be allocated to the Federal Hospital Insurance (Medicare) Trust Fund.

S. 874 (Senators Chafee and others)

S. 874 would impose a 32-cent per pack tax rate on cigarettes after December 31, 1985. One-half of these tax revenues (i.e., 16 cents per pack) would be allocated to the Medicare Trust Fund. The bill also contains floor stocks provisions, with an exception for retailers.

Senator Durenberger

Senator Durenberger's proposal (to be introduced) would permanently extend the 16-cents per pack rate. One-half of revenues from the tax imposed on cigarettes after September 30, 1985 (i.e., 8 cents per pack) would be allocated to a new Federal Disease Prevention and Health Promotion Trust Fund for making grants to State and local governments for approved disease prevention and health programs.

Other Congressional Action

H.R. 3128, as reported by the House Committee on Ways and Means on July 31, 1985 (H. Rep. No. 99-241, Part 1), would extend the current cigarette tax rates (i.e., 16-cents per pack on small cigarettes on a permanent basis.

One-sixteenth of cigarette excise tax revenues (i.e., 1 cent per pack of 20 cigarettes) would be appropriated to a newly established Tobacco Equalization Trust Fund, for the period October 1, 1985, through September 30, 1990, for use in the Federal tobacco price support program. The remaining 15 cents per pack would continue to be deposited in the general fund.

¹ Tax rates mentioned are per pack of 20 small cigarettes. The rates on large cigarettes would be adjusted proportionately in each case.